

Current Support Brief

POLISH CONSUMER FACES BLEAK WINTER



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## POLISH CONSUMER FACES BLEAK WINTER

For the second year in a row, there has been no noticeable increase in per capita consumption in Poland, although the regime had promised a steady increase throughout the current Five Year Plan period (1961-65). Moreover, there is a threat of inflation because urban workers, whose money wages have risen rapidly this year, are being supplied with even smaller quantities of meat and dairy products than last year. In spite of the regime's current campaign to hold down purchasing power in the last quarter of 1963, the demand for quality foods is bound to exceed supply throughout the winter, and the government may have to resort to further price increases in order to balance the market. Faced with growing popular dissatisfaction, the government may, in drafting economic plans for 1966-70, take steps to assure a more rapid increase in consumption, but there is little that it can do to raise consumption significantly in 1964.

### 1. Trends in Consumption During 1959-62

Consumption per capita in Poland rose less than 10 percent during 1959-62.\* Most of this increase occurred in 1961, when a good harvest brought a sizable increase in supplies of foodstuffs. Per capita consumption did not go up at all in 1960 and increased by only about 2 percent in 1962, when agricultural production dropped sharply from the level of 1961. In recent years, purchases of quality foods, such as meat and dairy products, have been the key indicator of trends in consumption. The basic needs of the Polish population for staple foods have largely been met, and the consumer has shown reluctance to increase his purchases of either nondurable consumer manufactures, such as clothing, or cheaper kinds of durables until quality and assortment have been improved. On the other hand, there has been a good deal of unsatisfied demand for most other durables and for housing.

In setting the annual plan for 1963, the regime recognized that the decline in agricultural output in 1962 would make it impossible to achieve more than a very small increase in consumption again this year. The planners anticipated that a shortage of fodder resulting from

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\* Data in this publication are based on official Polish statistics.

C-O-N-F-I-D-E-N-T-I-A-L

C-O-N-F-I-D-E-N-T-I-A-L

the sharp drop in crop production in 1962 would bring about a small decline in output of livestock products. Moreover, realizing that it would be necessary to cut exports of agricultural products and increase imports of grain, the government planned to make partially compensating reductions in imports of raw materials for light industry.

## 2. Incomes and Consumption in 1963

In the course of 1963 it has become evident that even the planned increase of less than 3 percent in per capita consumption was over-optimistic. Partly because of blizzards and severe cold at the beginning of 1963 and a drought during the summer, production of livestock dropped even more than anticipated. The hard winter also caused output to lag behind the plan in light industry, and because of the low priority of light industry in the allocation of resources, the lag was not made up. At the same time, incomes have increased much more rapidly than planned this year, raising a threat of inflation on the consumer market.

During 1963 the number of workers and the average wage in Poland have been rising rapidly. Total wage payments outside private agriculture were about 8.5 percent higher in the first 9 months of 1963 than in the comparable period of 1962 -- an increase much in excess of that provided for in the annual plan and also greater than the increase of 4.4 percent in industrial production. In their annual plans the Poles have always tended to underestimate somewhat the increases in wages and employment needed to achieve industrial production goals, but the disparity between planned and actual increases is unusually large this year. The main cause has been the government's attempt in the spring and summer months to make up some of the lag in industrial output and construction that occurred in the first quarter because of the hard winter. Large numbers of additional workers were hired during the spring and summer, and overtime payments rose sharply.

Because of a sharp decline in farm incomes, total personal income has risen considerably less rapidly than the wages of nonagricultural workers. The growth in urban money incomes, however, threatens the stability of the consumer market because supplies of most quality foods, the demand for which probably rises at least proportionately to urban incomes and is not affected much by changes in farm incomes, have been below last year's levels. Because of the shortage of fodder this year, production of meat and other animal products has declined sharply from 1962. State purchases of meat in the first

C-O-N-F-I-D-E-N-T-I-A-L

8 months of 1963 were nearly 12 percent lower than during the comparable period in 1962, and purchases of both milk and eggs were about 9 percent lower. Changes in the pattern of foreign trade have cushioned somewhat the effects of reduced production on the consumer market. Exports of meat and meat products this year have been cut by a reported 75,000 tons, or by 40 percent, below the level of 1962. Exports of eggs and dairy products also fell below last year's levels. On the other hand, about 45,000 tons of meat and some butter were imported. Nevertheless, retail supplies of meat for the first 8 months of 1963 were nearly 3 percent less than for the comparable period of 1962, and supplies of most dairy products also were somewhat lower.

Thus far, in spite of the rapid increase in wage payments and the decline in supplies of meat and dairy products, there has been only relatively little evidence of inflationary pressure on the food market. Free market prices of meat and dairy products have risen somewhat, and in mid-September the regime raised the price of milk and other dairy products in state retail outlets, but as yet there has been no increase in state prices of meat, and only recently have there been reports of shortages of meat in shops. One of the reasons for the absence of strong inflationary pressure is that plentiful supplies of fresh fruits and vegetables during the summer months compensated in part for the reduced availability of meat and dairy products. In addition, sales of consumer durables such as refrigerators and vacuum cleaners increased rapidly, and supplies of the most important staple foods, such as flour and sugar, are greater than last year. Moreover, a large portion of this year's increased income has been put into savings, and, as a result, monetary demand of urban families has risen much less rapidly than wage payments.

### 3. Threat of Market Instability

The Polish leaders apparently fear that inflationary pressure will grow in the coming winter months. Production of animal products probably will remain depressed well into 1964, the regime probably will be unwilling to cut exports enough to bring consumption up to the levels of 1962, and fresh fruits and vegetables will have largely disappeared from the market. Furthermore, the regime undoubtedly is afraid that the rapid increase in savings cannot continue indefinitely. To prevent further increases in purchasing power, the government has placed a freeze on wages and employment in the last quarter of 1963, ordering banks to maintain tight control of enterprise wage bills. In addition, some of the excess purchasing power generated during the spring and

C-O-N-F-I-D-E-N-T-I-A-L

summer will be mopped up by increases in the price of fuel that were instituted last spring and by recent increases in prices of milk, dairy products, matches, wine, and vodka.

The regime undoubtedly would like to avoid further increases in the price of food. The increases made so far, although they did not cut deeply into real income, nevertheless antagonized the population. Even if the regime is able to halt the increase in incomes in the last quarter of 1963, there is bound to be unsatisfied demand for quality foods unless prices are raised further.

#### 4. Consumer Dissatisfaction and Government Policy

Even if there are no additional increases in prices, the Polish population will be dissatisfied, and probably to an increasing degree. The sources of this dissatisfaction are not only the decline in availability of quality foods this year but also the insignificant increase in total consumption over the past 2 years and the failure of the regime to keep its promise of a steady rise in consumption over the course of the Five Year Plan. Because the population until now has expressed its dissatisfaction relatively mildly -- grumbling and isolated strikes following last spring's rise in the price of fuel -- the regime has felt free to let consumption bear the brunt of shortfalls in production. There are signs that the regime is reconsidering this policy, perhaps in part because it fears an increasingly strong popular reaction. In an address to a Party Plenum in November, the Chairman of the Planning Commission, Stefan Jedrychowski, announced that only small increases in investments would be planned for 1964 and 1965 and indicated that, in view of the slow growth of consumption in recent years, consumer-oriented sectors, especially agriculture, should receive a higher priority in the allocation of resources. This increased concern with consumption may be manifested in the drafting of the new Five Year Plan (1966-70). It will be some time, however, before any change in policy (short of a drastic shakeup in economic priorities) can have a noticeable impact on consumption. Because of the dominant effect of this year's mediocre production in agriculture on next year's food supply and the necessity to reduce the deficit in foreign trade, there is little the government can do to raise consumption in 1964.

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Sources:

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